Statement
By
Secretary of Agriculture Bob Bergland
Before
Dairy and Poultry Subcommittee
House Committee on Agriculture
May 31 1979

Thank you for inviting me to discuss with you our milk price support program and the Administration's position on proposed milk price support legislation. We have proposed an amendment to H.R. 80, the Dairy Price Support Bill passed by this subcommittee and I very much appreciate your consideration of our proposal.

First, I want to say that I believe that our dairy program is one that works, and works well. There have been times when supports were inadequate and farmers went through a squeeze, and there have been times when milk production was too high and surpluses were large and relatively costly. But, by and large, the program does what it is supposed to do. It prevents wide fluctuations in milk prices by putting a floor on the down side, and it damps sharp up swings by moving government owned stocks back into the market as prices move up.

This latter point is not generally appreciated, but only last year, Commodity Credit Corporation sold back to the industry 22 million pounds of butter and 5 million pounds of cheese. These sales had an important impact on the market. Without them, the strong demand we faced then would have moved prices up farther and more rapidly than actually happened.

And, frankly, our current sales policy that permits us to sell products back at 105 percent of support levels permits us to be even more effective in damping sharp price rises. I know this policy is somewhat unpopular with the dairy industry now, but in this time of inflation I believe it is necessary and important.

Our dairy policy works because it serves both producers and consumers. It will continue to work as long as it continues to serve both groups well. Should it fail to serve either group well, the policy will fail.

I remind you of that double responsibility because it means that I can never manage such a program to the complete satisfaction of either group. Consumers tend to want lower prices than are consistent with an adequate supply in the long run. Producers might want higher supports than are justified to provide an adequate supply. Secretaries of Agriculture must work to strike a balance and that is as difficult as it is unpopular.

I don't want to overemphasize that point, however. It is my observation that consumers today understand more clearly than they did even a few years ago the necessity for a fair price for producers, and the unhappy consequences of not providing such a fair price. And, I know of no dairyman who wants to see prices set so high as to cause the surplus government stocks and high government costs and the probable consumer backlash that would follow. I believe we have made some progress in helping people on both sides of these issues understand the basics of supply and demand and program operation.

The Administration had a choice to make on the dairy policy issue--and, frankly it was a hard choice. We had to choose a position that would give producers the price protection they need to produce adequate supplies of milk, but at the same time give me the flexibility I need to manage the program. We had to choose between an inflexible commitment to support milk prices at a minimum of 80 percent of parity or an effort to gain more flexibility to manage the program. We chose the latter course for several reasons.

Right now, 80 percent of parity looks like a very reasonable level of supports, and 75 percent looks too low. We were at 80 percent of parity last fall, and we moved supports up about 9 percent last April 1, to a level a little more than one point below 80 percent at that time. April 1 milk prices averaged 15 percent more than a year ago. We don't know yet exactly how much production costs have increased this year, but we do not believe they have increased as much as 15 percent. Feed costs make up about half of dairy production costs, and the price of 16 percent protein dairy feed in April was 9 percent over a year ago. Hay prices actually decreased slightly on a national average basis.

Economic incentives for milk production have been strong for more than a year. The value of 100 pounds of milk now exceeds the value of 100 pounds of dairy feed concentrates by well over $5--a record margin. That margin increased by more than 25 percent during 1978--and is still climbing rapidly. However, instead of surplus milk production, we have tight supplies.

Production for the first seven months of this marketing year was just about the same a for a year earlier, and production in April was slightly below (0.2 percent) a year earlier. Clearly, the very high cull cow prices have encouraged dairymen to cull more heavily than they would normally with these milk prices.

And, while milk production response has been less than expected, consumption of milk and dairy products has been strong. As a result, prices have been strong and surplus removals by CCC have been down sharply. For the October through April period this year net removals (purchases minus sales back to the industry) were equivalent to 0.3 billion pounds

of milk in the form of butter and cheese. A year ago, comparable figures were 2.7 billion pounds for the first seven months.

Non-fat dry milk removals are down this year, too. They totaled 41 million pounds for the first seven months of this year, compared with 160 million pounds a year earlier. As a result, CCC's inventories have been substantially reduced. On April 30, 1979, CCC had uncommitted inventories of 163 million pounds of butter and 442 million pounds of non-fat dry milk, and no cheese. These compared with peak inventories last year of 250 million pounds of butter, 650 million pounds of non-fat dry milk and 55 million pounds of cheese.

If I could know that these conditions would continue for the next two years, I could say with confidence that minimum 80 percent of parity would be appropriate for that whole period. But, I can't for three reasons.

First, our dairy herds are now heavily culled because high hamburger and cull cow prices made it profitable to do so. This has reduced production temporarily, but it increases potential production later on, as heifers with higher production potential come into the herd. Increased production could result in 1980, but more probably will be seen in the spring and summer of 1981.

And, USDA studies show that price supports at 80 percent of parity will continue to provide very strong economic incentives to producers. Both market prices and price supports could exceed cost of production by 1981.

Finally, any downturn in the economy will reduce demand for dairy products and increase the chances of over-production.

As the result of these projections and the uncertainty that surrounds them, the Administration believes that we must have somewhat more flexibility to manage our dairy programs over the next two years than we would have under a straight extension of current authority as proposed in H.R. 80. We are willing to accept an extension of current 80 percent of parity support minimums for an additional two years but recommend that the law be modified so that I have authority to not make a scheduled increase in supports if the program begins to get in trouble.

I described my concept of such a "circuit breaker" in my May 24 letter to Chairman Foley. In that letter, I described two key reasons for our concern over the possibility of trouble with the program and the need for a "circuit breaker" if that happens. The first is inflation. The second is potential increases in program costs. And, I described the "circuit breaker" in some detail there, so I won't describe it further here.

However, I want to make a couple of brief comments about the proposed amendment. First, it is permissive. It does not automatically direct the Secretary to change any current or future price support level. If the mechanism triggers, the Secretary must make a determination. The amendment would permit him to decide whether or not to go ahead with changes in the support level required by the normal annual adjustment procedures to 80 percent of parity and the semiannual adjustment procedures.

Second, the amendment does not give the Secretary authority to lower support levels. If the amendment were in effect and net removals exceeded the trigger level, I would not have any more authority to lower price supports then than I do now. I would, under that situation, have more flexibility about the next upcoming change in the level of prices supports.

But I would not have authority to lower support levels unless the index indicated a decline in prices and directed a decline in supports.

Finally, I want to repeat that the "circuit breaker" mechanism we propose is new and untried. We would be willing to discuss alternatives that might work better. However, we believe that this mechanism would add important flexibility and that having it would help both producers and consumers. It could not be used unless needed. When needed, it would give producers a clear but moderate signal that there is a problem and that changes are needed. It would prevent unnecessary expenditures by consumers and taxpayers, and avoid undesirable criticism of the dairy program.

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